

USDA Rural Development Business & Industry (B&I) Guaranteed Loan Program

Tuesday, November 10, 2015

Good Morning!

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888-858-2144 then enter**

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Thank you!



USDA Rural Development Business & Industry (B&I) Guaranteed Loan Program



Committed to the future of rural communities.

Business and Industry Guaranteed Loan Program Mission

- Create and maintain employment and improve the economic and environmental climate in rural communities
- Bolster the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits



Why Obtain a Loan Guarantee?

- Allows lender to lend beyond its legal lending limit
- Mitigates collateral & other perceived risk
- Secondary market yield
- Expand loan portfolio
- Fee income

Eligibility

- **Lender** — Traditional Lenders, Credit Unions, Farm Credit, and Other
- **Borrower** — Any Legal Entity
- **Loan Purpose** — Real Estate, Equipment, Working Capital, Refinancing, and Ag. Processing
- **Location** — Rural Area

Ineligible Borrowers/Purposes

- Charitable institutions
- Churches or church-controlled organizations
- Fraternal organizations
- Lending and investment institutions
- Businesses engaged in illegal activity
- Golf courses

Ineligible Borrowers/Purposes, *cont.*

- Lines of credit
- Guarantee of loans made by other Federal agencies.
- Distribution or payment to an owner, beneficiary, or a close relative of the owner, when owner will remain an owner

Fees and Percentage of Guarantee

- Fees
 - Initial Guarantee Fee – 3% in most cases
 - Annual Renewal Fee – $\frac{1}{2}$ of 1% **subject to change*
- Percent of Guarantee Maximums
 - \$5MM - \$10MM – 70%
 - \leq \$5MM – 80%

Loan Structure

- Negotiated by the lender and borrower
 - Rates can be Fixed/Variable/Combination, but cannot vary more often than quarterly
 - Origination fees and prepayment penalties are permitted
 - No balloon payments
- Maximum loan terms:
 - Real Estate 30 years, Equipment: the lesser of 15 years or useful life, Working Capital 7 years

Eligible Application Doc.

- Unconditional personal and corporate guarantees
- Appraisal
- Feasibility study – start-ups
- Business plan – all entities
- Insurance
- Environmental Review

Tangible Balance Sheet Equity

- Financial statements must be prepared in accordance with GAAP (may be “In-house” financials)
- Minimum of 10 percent required for existing businesses
- Minimum of 20 percent required for new businesses
- Minimum of 25-40 percent required for energy projects, depending on certain criteria.

Equity, continued

- Intangibles - goodwill, R&D, amortized loan costs, customer lists, etc. - must be removed

Collateral

- Must be sound and sufficient to protect interests of the lender and Agency (normally discounted value will be at least equal to the loan amount)
- Must be appropriately discounted

Discount Rates

- Real Estate – up to 80%
- Equipment – up to 70%
- Accounts Receivable – up to 60%
- Inventory – up to 60%
- If more generous discounting is used, lender must provide justification

Application:

- Agency Reviews the Following
 - Borrower Eligibility
 - Loan Purpose Eligibility
 - Repayment Ability
 - Sufficient Collateral & Equity
 - Compliance with Statutes and Regulations

Loan Approval

- Approval typically takes no more than 30-60 days
- Rural Development State Loan Committee meets to consider approving loan guarantee
- National Office Loan Committee approves loans above State's loan approval authority

Conditional Commitment

- Establishes Agency loan requirements and conditions
- All conditions must be met before the Loan Note Guarantee is issued

Loan Note Guarantee

- Loan Note Guarantee is issued at or immediately after loan closing
- Guarantee does not typically cover construction period, but can be considered on a case-by-case basis

USDA Rural Development

- Business and Industry Guaranteed Loan Program
 - Process
- The End

